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SUBJECT: UTILITY PRICES RISING AS THE GOA BEGINS TO
PRIVATIZE WATER MANAGEMENT AND DISTRIBUTION

SUMMARY AND COMMENT

1. Parliament passed June 16 a revised Water Code allowing public water and sanitation services to take on private partners and to adjust the sliding water tariff schedule, which will likely lead to more price increases. (Minimum per cubic meter water prices for typical consumers already increased 61% in January.) The new Code will permit state-owned company Algerienne des Eaux (ADE) to award a water distribution management contract for Algiers to the French Suez Group. Once adopted by the Conseil de la Nation (Senate), the new Water Code will also permit the state to enforce environmental regulations and impose penalties for violations. These revisions come at a time of acute water shortages in western Algeria, particularly Oran.

2. Sonelgaz increased electricity and gas prices June 1 by 5%, maintaining a general trend of price increases for many products in Algeria, including gasoline, whose prices have also increased within the past year.

3. Comment: The press criticizes these Sonelgaz rate hikes for taking another bite out of consumer spending power. Press commentaries regularly call attention to the disconnect between rising utility prices and Algeria's fast-rising oil revenues. It remains to be seen if the GOA will adjust its utility pricing in the face of consumer concerns, although the larger economic benefits of instituting a rational pricing system would argue against GOA changes at this point.

END SUMMARY AND COMMENT.

MANAGEMENT PRIVATIZATION FOR ALGIERS AND
A NEW TARIFF SYSTEM FOR HIGHER PRICES

4. Parliament passed the revised Water Code June 16 to let water pricing reflect actual costs of production, exploitation, maintenance and infrastructure development. The sliding scale for water pricing will adjust the consumption brackets on which charges are based, and is likely to lead to price increases for average consumers. (Note: Water rates already increased 61% in January for the lowest consumption bracket from 3.6 dinar (5 cents) to 5.8 dinar (8 cents) per cubic meter. The GOA continues to subsidize the difference between these costs and the actual cost of water, 25.5 dinar (35 cents). End Note.) The effects of severe water shortages have affected both drinking water and irrigation supplies, leading the GOA to adopt large and ambitious water infrastructure investment plans, the costs of which the GOA plans to pass on to water customers. The new Code represents the first change in drinking water pricing since 1995 and in irrigation water pricing since 1998.

5. The Code grants Algerienne des Eaux (ADE) the right to create private-sector partnerships for water distribution and sanitation services. Water will technically remain in state ownership, a point that Water Resources Minister Sellal has reiterated publicly in the face of minor opposition. The GOA began negotiating in 2003 with the French Suez Group to manage the first stage of water distribution improvement in Algiers. The goal of the two-year management contract is to reduce water loss from 40% to between 5% and 10%. A jointly-owned company, the Algiers Water and Sanitation Company (SEAL), would be created with state utility Algerienne des Eaux (ADE), the National Sanitation Office (ONA), and the Suez Group. Sellal has said that the contract with Suez would not privatize Algeria's water sector and that the State would continue to subsidize water prices. Management privatization contracts would be granted in a second phase for Annaba, Constantine, and Oran, with tenders to be released in October 2005.

ELECTRICITY AND GAS
PRICES ALSO ON THE RISE

6. Electricity and gas prices rose 5% June 1 for households, consistent with a request earlier this year from Sonelgaz to the Regulatory Commission for Electricity and Gas. Both rates increased 9.5% for small businesses, and 10.5% and

9.5%, respectively, for heavy industries. Gas rates were lowered for the petrochemical industry to stimulate growth in that sector. The GOA announced in a communique that these rate adjustments were designed to be in conformity with the 2002 Law on Gas and Electricity, and were not a result of the new Hydrocarbons Law, as opponents had claimed.

MP'S CRITICIZE EARLY VERSION
OF NEW WATER CODE DURING DEBATE

17. The new Water Code's Article Two had initially changed the right of the public to "access" water to the right of the public to "use" water. Most political parties deemed this shift "dangerous" for social stability, considering the right to access water as fundamental. The new language, which was rejected, may have reinforced the GOA's ability to shut down illegal connections to the public water system. Such violations have been traditionally tolerated by authorities, but will become harder to overlook as water meters in private homes become more universal.

18. Outspoken Workers' Party (PT) deputy Louisa Hanoune declared that the new code violated Articles 17 and 26 of the Constitution, guaranteeing that public property belongs to the national collectivity. She said the law's consequences would be disastrous, as it would restrict access to water and would "unquestionably" lead to "diseases and epidemics" that have already been eradicated. A former deputy of the majority-aligned party RND declared that the new text had put into question the fundamental human right to use water.

19. Reacting to the privatization of Algiers' water management, the Worker's Party (PT), moderate Islamist party MSP, and FLN deputies opposed those portions of the new text, declaring themselves "outraged" to see economic and commercial interests taking control of a public service.

"WATER POLICE" TO ENFORCE
ENVIRONMENTAL REGULATIONS

10. The new code would also give more power to the government to regulate water quality and protect areas with vulnerable watersheds and ecosystems. A new "water police" unit within the Ministry of Water Resources will be created to enforce both water and environmental regulations and set penalties and sanctions for violating them.

MORE OPPORTUNITIES FOR U.S.
FIRMS IN THE WATER SECTOR

11. The four-year water infrastructure budget is USD 7 billion, excluding funding for seawater desalination. New strategies to address Algeria's 750 million cubic meters of wastewater, most of which are dumped in the Mediterranean, are a priority. Tenders will be released in October 2005 for water management contracts in Annaba, Constantine, and Oran, with 5 more tenders to be released in 2006 for Tlemcen, Skikda, Tizi-Ouzou, La Calle, and Temouchent. Western cities, particularly Oran, have experienced drinking water deficits for the last 20 years, exacerbated by low rainfall and poor technology in water demineralization and purification. Nationally, ten new dam projects were recently launched and 15 projects are in the study phase. Flood protection technologies and aquifer replenishment are other key areas where the Ministry of Water Resources is actively seeking foreign participation.

ERDMAN